

May 16, 2022

## Ethos Limited IPO

Incorporated in 2007, Ethos Limited is India's one of the largest luxury and premium watch retail player having 13% share of the total retail sales in premium and luxury segment and a share of 20% in exclusively luxury segment in FY2020. KDDL Ltd is the parent company of Ethos Ltd and is already listed on exchanges. The company offers sizeable portfolio of 50 premium and Luxury watch brands. Ethos Ltd sells its products through online platforms and 50 physical retails stores in 17 cities in India in a Multi store format.

**Positives:** (a) Market leader in Luxury watch segment in India, and it also leads the Luxury Omnichannel market in India (b) Strategically located and well invested store network (c) Strong and long-standing relationships with luxury watch brands (d) Founder-led company supported by a professional management team.

**Investment concerns:** (a) Increase in competition (b) Slowdown in the economy could impact the overall revenue of the company.

**Outlook & Valuation:** In terms of valuations, the post-issue TTM P/E works out to 96.2x (at the upper end of the issue price band), which is high considering Company's historical top-line & bottom-line negative CAGR of ~7% and ~24% respectively over FY19-21. However, Ethos has a healthy market share in total retail sales in the premium and luxury segment. Further Ethos has strong brands and a wide range of products but we believe that these positives are captured in the valuations commanded by the company. **Thus, we have a NEUTRAL rating on the issue.**

### Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021	9MFY22
<b>Net Sales</b>	444	458	387	419
% chg		3.2	(15.6)	
<b>Net Profit</b>	10	(1)	6	16
% chg		(113.5)	533.7	-
OPM (%)	7.0	4.1	2.2	5.4
<b>EPS (₹)</b>	5.3	(0.7)	3.1	8.5
P/E (x)	166.7	NA	284.9	-
P/BV (x)	12.6	11.0	10.6	-
RoE (%)	7.6	(0.7)	3.6	-
RoCE (%)	11.1	5.8	2.8	-
EV/Sales (x)	4.0	4.0	4.6	-
EV/EBITDA (x)	31.6	35.1	44.5	-

Angel Research; Note: Valuation ratios based on post-issue shares and at ₹878 per share.

## NEUTRAL

Issue Open: May 18, 2022

Issue Close: May 20, 2022

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹19cr

Offer for Sale: 0.11cr share

Fresh Issue: ₹375cr

Post Eq. Paid up Capital: ₹23cr

Issue size (amount): ₹472.3cr

Price Band: ₹836-878

Lot Size: 17 shares

Post-issue mkt.cap: ₹1,970\*– 2,050cr\*\*

Promoter holding Pre-Issue: 81.0%

Promoter holding Post-Issue: 61.7%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

### Post Issue Shareholding Pattern

Promoters	61.7%
Public	38.4%

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## Company background

Incorporated in 2007, Ethos Limited is India's one of the largest luxury and premium watch retail player having 13% share of the total retail sales in premium and luxury segment and a share of 20% in exclusively luxury segment in FY2020. The company delivers premium luxury watches through websites, social media platforms and physical stores. Ethos Limited operates on an omnichannel model and allows customers to order products either offline or online and have the flexibility of buying products at one store and returning at another or browsing product catalogues and placing orders online with doorstep delivery.

The company's watch portfolio has 50 premium brands including Omega, IWC Schaffhausen, Jaeger LeCoultre, Panerai, Bvlgari, H. Moser & Cie, Rado, Longines, Baume & Mercier, Oris SA, Corum, Carl F. Bucherer, Tissot, Raymond Weil, Louis Moinet and Balmain.

The company has 50 physical retail stores in 17 cities in India including New Delhi Mumbai, Bengaluru, Hyderabad, Chennai, Kolkata, Chandigarh, Ahmedabad, Jaipur, Lucknow, Gurgaon, Guwahati, Ludhiana, Nagpur, Noida, Pune and Thane. Ethos Limited has 7,000 different premium watches and 30,000 watches in stock at any given time. As of December 31, 2021, the company's website had 21,844,216 visitor sessions.

## Issue details

Ethos is raising ~₹97cr through OFS and ₹375cr through Fresh Issue in the price band of ₹836-₹878per share.

### Exhibit 1: Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	1,54,56,412	81.0%	1,43,95,912	61.7%
Public	36,21,751	19.0%	89,53,322	38.3%
<b>Total</b>	<b>1,90,78,163</b>	<b>100.00%</b>	<b>2,33,49,234</b>	<b>100.00%</b>

Source: Source: RHP, Note: Calculated on upper price band

## Objectives of the Offer

- Repayment or pre-payment, in full or in part, of all or certain borrowings availed by the Company (~₹30cr).
- Funding working capital requirements (~₹235cr).
- Financing the capital expenditure for establishing new stores and renovation of certain existing stores (~₹33cr) as well as upgradation of enterprise resource planning software (~₹2cr).
- General corporate purpose

**Exhibit 2: Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Net Sales</b>	<b>444</b>	<b>458</b>	<b>387</b>
% chg		3.2	(15.6)
Total Expenditure	387	406	347
Raw Material	315	329	282
Personnel	33	33	29
Other Expenses	38	44	36
<b>EBITDA</b>	<b>57</b>	<b>52</b>	<b>40</b>
% chg		(9.0)	(23.0)
(% of Net Sales)	12.8	11.3	10.3
Depreciation & Amortization	26	33	31
<b>EBIT</b>	<b>31</b>	<b>19</b>	<b>8</b>
% chg		(39.4)	(55.4)
(% of Net Sales)	7.0	4.1	2.2
Interest & other Charges	16	20	17
Other Income	2	3	17
(% of PBT)	9.5	136.1	208.1
<b>Recurring PBT</b>	<b>16</b>	<b>2</b>	<b>8</b>
% chg		(85.9)	243.2
Tax	7	3	2
(% of PBT)	40.0	143.1	29.0
<b>PAT before P/L of JV</b>	<b>10</b>	<b>(1)</b>	<b>6</b>
% chg		(110.1)	(665.2)
Share in profit of Joint Venture	-	(0)	0
<b>PAT</b>	<b>10</b>	<b>(1)</b>	<b>6</b>
Basic EPS (Rs)	5.3	(0.7)	3.1
Fully Diluted EPS (Rs)	5.3	(0.7)	3.1

Source: Company, Angel Research

## Consolidated Balance Sheet

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>SOURCES OF FUNDS</b>			
Equity Share Capital	17	18	18
Reserves & Surplus	114	132	137
<b>Shareholders' Funds</b>	<b>130</b>	<b>150</b>	<b>156</b>
Total Loans	149	174	140
Other Liabilities	2	2	2
<b>Total Liabilities</b>	<b>281</b>	<b>326</b>	<b>298</b>
<b>APPLICATION OF FUNDS</b>			
Net Block	90	125	111
Capital Work-in-Progress	5	1	4
Investments	-	1	1
Current Assets	252	276	257
Inventories	206	219	198
Sundry Debtors	9	9	12
Cash	9	11	21
Loans & Advances	0	0	0
Other Assets	28	37	26
Current liabilities	88	96	94
Net Current Assets	164	180	163
Deferred Tax Asset	8	8	9
Other Assets	14	12	12
<b>Total Assets</b>	<b>281</b>	<b>326</b>	<b>298</b>

Source: Company, Angel Research

**Exhibit 3: Consolidated Cash Flow Statement**

Y/E March ( ` cr)	FY2019	FY2020	FY2021
Profit before tax	16	2	8
Depreciation	26	33	31
Change in Working Capital	-51	-12	26
Interest / Dividend (Net)	15	18	16
Direct taxes paid	-7	-6	-3
Others	-1	1	-15
<b>Cash Flow from Operations</b>	<b>-1</b>	<b>37</b>	<b>63</b>
(Inc.)/ Dec. in Fixed Assets	-13	-13	-9
(Inc.)/ Dec. in Investments	1	-1	-1
Interest Received	0	0	0
<b>Cash Flow from Investing</b>	<b>-12</b>	<b>-15</b>	<b>-10</b>
Issue of Equity	29	21	0
Inc./(Dec.) in loans	0	-22	-29
Dividend Paid (Incl. Tax)	0	0	0
Interest / Dividend (Net)	-16	-19	-16
<b>Cash Flow from Financing</b>	<b>13</b>	<b>-20</b>	<b>-45</b>
Inc./(Dec.) in Cash	0	2	8
<b>Opening Cash balances</b>	<b>7</b>	<b>8</b>	<b>10</b>
<b>Closing Cash balances</b>	<b>8</b>	<b>10</b>	<b>18</b>

Source: Company, Angel Research

### Key Ratios

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	166.7	NA	284.9
P/CEPS	46.4	52.4	44.4
P/BV	12.6	11.0	10.6
EV/Sales	4.0	4.0	4.6
EV/EBITDA	31.6	35.1	44.5
EV / Total Assets	6.4	5.5	5.9
<b>Per Share Data (Rs)</b>			
EPS (Basic)	5.3	-0.7	3.1
EPS (fully diluted)	5.3	(0.7)	3.1
Cash EPS	18.9	16.8	19.8
Book Value	69.5	79.8	82.9
<b>Returns (%)</b>			
ROCE	11.1	5.8	2.8
Angel ROIC (Pre-tax)	11.5	6.0	3.1
ROE	7.6	(0.7)	3.6
<b>Turnover ratios (x)</b>			
Asset Turnover (Net Block)	4.9	3.7	3.5
Inventory / Sales (days)	169	174	187
Receivables (days)	7	7	12
Payables (days)	56	58	68
Working capital cycle (ex-cash) (days)	121	124	130

Source: Company, Angel Research

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